

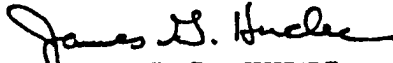
T
CHIEF OF STAFF

29 DEC 1988

TO: Director of Central Intelligence

SUBJECT: Letter to the Honorable Joseph
Addabbo, dtd 15 December 1983,
Serial: N1850

The letter to the Honorable Joseph
Addabbo, dated 15 December 1983, Serial:
N1850, was forwarded to you on 16 December
1983. That letter has been withdrawn and
reissued in slightly modified form. Please
destroy the 15 December copy and replace it
with the attached letter, dated 22 December
1983, Serial: N1850


JAMES G. HUDEC
T Chief of Staff

Encl:
a/s





NATIONAL SECURITY AGENCY
CENTRAL SECURITY SERVICE
FORT GEORGE G. MEADE, MARYLAND 20755

Serial: N1850
22 December 1983

83-60621

CONFIDENTIAL

The Honorable Joseph P. Addabbo
Chairman
Subcommittee on Defense
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

(FOUO) I am writing you concerning the Conference Report on the Department of Defense, Appropriations Bill, 1984. A portion of the cited report deals with the acquisition of Automated Data Processing Equipment (ADPE) and sets out restrictions on the lease--lease with option to purchase, or installment purchase methods of ADPE acquisition as well as requirements to buy-out existing leases. Requirements are also established to conduct all new acquisitions on a purchase-only basis through open competition with provisions for very limited exceptions which must be reported to the Committee. The classified annex to the report extends these provisions to the Intelligence Community, subject to a note that NSA's ADPE acquisitions may not fall into the categories to be covered by the restrictions. The Director of Central Intelligence (DCI) is directed to study the matter, report to your Committee by 1 July 1984, and to program a buy-out fund similar to that established in Defense Logistics Agency for DoD.

(C) This policy, if applied to NSA, would have serious consequences on NSA's ability to perform its cryptologic missions. The estimated funds necessary to buy-out existing or currently planned cryptologic ADPE would be in excess of \$150,000,000. I can assure you that cryptologic ADPE acquisitions are already subject to policies and procedures that address the concerns raised in the report. NSA needs the flexibility currently available to meet its unique cryptologic needs. The proposed policies would severely limit that flexibility in this context. I would note that Congress, in the past, has been supportive by enacting more than one statutory exemption, applicable to cryptologic ADPE acquisitions, designed to provide the needed flexibility. This flexibility permitted NSA to carry out its cryptologic missions using the most advanced ADPE available from U.S. manufacturers and to acquire such ADPE in the most expeditious manner possible.

Classified by NSA/CSSM 123-2

Declassify on Originating Agency's Determination Required

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(C) Likewise, this flexibility has permitted us to support vendors who are developing unique products of special application to cryptologic problems. This flexibility has been a key element in NSA's ability to obtain the computing power necessary to cope with increasingly complex technological challenges and continue to produce required intelligence information or protection. It has also been a key element in our ability to support a domestic, industrial production capability, particularly in the supercomputer area, and avoid having to use foreign suppliers of such technology. We believe the loss of this flexibility would adversely affect our ability to intervene in the marketplace to support new, U.S. computer developments. My senior ADP managers already have encountered concerns about the proposed policy from a U.S. computer manufacturer during a recent advanced technology trip. One manufacturer also noted that they had already conceded the large-scale computer market to the Japanese because the manufacturer simply could not compete, and could not depend on sufficient support from the U.S. Government to warrant continued large computer development and manufacturing efforts on their part. We currently have efforts underway to attempt to keep several U.S. manufacturers in the supercomputer business and virtually all of these efforts involve the use of lease with option to purchase contracts. We simply could not react fast enough if we were required to pursue such efforts solely on a purchase basis. Incidentally, if we were required to purchase such equipments, we would be unable to negotiate favorable replacement terms such as those we are now able to do under lease with option to purchase. Under existing procedures, we are generally able to bring in early developmental models, gain experience, and then have those models replaced with more reliable production models at no or little additional cost to the government. Such terms are not limited to large computer equipments, but are often available for a wide range of systems and peripherals. Such flexibility is important to us

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(FOUO) In reviewing the final classified report of the Conference as well as the unclassified report, I have concluded that any implementation of the changes discussed in the Committee's report would markedly change relationships concerning ADPE acquisitions, establish restraints that would adversely affect our current ability to acquire advanced ADP technology, provide disincentives to the U.S. marketplace to develop and produce the technology we need, and would have an unintended effect on our ability to do complex cryptologic processing needed to maintain our current capabilities. In addition, the policy affects the entire range of cryptologic missions for which I am responsible and, while I do not wish to prejudice the efforts of others to respond to the classified annex requirement, I believe, because the cryptologic case is unique, that it warrants separate consideration. I would also note that portions of the cryptologic mission may be affected by the unclassified DoD Conference Report vice the classified annex. For these reasons, I am requesting that you grant NSA an exemption from the requirement to participate in the study required by the classified annex and from the policy set out in the Conference Report. This action is needed now in order to allow NSA to pursue its acquisition plans and to remove confusion in the marketplace concerning the proposed policy.

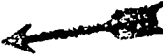
Sincerely,



LINCOLN D. FAURER
Lieutenant General, USAF
Director, NSA/Chief, CSS

Serial: N1850

Copies Furnished:

Director of Central Intelligence 

Deputy Secretary of Defense

The Honorable Ted Stevens, Chairman, Subcommittee on Defense,
Committee on Appropriations, United States Senate



NATIONAL SECURITY AGENCY
CENTRAL SECURITY SERVICE

1011 GEORGE G. MEADE, MARYLAND 20755

EXECUTIVE SECRET

83- 6068

Serial: N1850

15 December 1983

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CONFIDENTIAL

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Chairman
Subcommittee on Defense
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

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C O N F I D E N T I A L


Serial: N1850

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Sincerely,


LINCOLN D. FAURER
Lieutenant General, USAF
Director, NSA/Chief, CSS

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Copies Furnished:
Director of Central Intelligence
Deputy Secretary of Defense

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	Budget	House	Senate	Conference
Agri/technician mix	65,900	32,950	65,900	49,780
Average strength adjustment	1,250,830	1,250,830	1,275,430	1,250,830
All other items	257,189	257,189	257,189	257,189
Total, National Guard personnel, Army....	1,917,100	1,857,950	1,977,600	1,882,980

NATIONAL GUARD PERSONNEL, AIR FORCE

Amendment No. 12: Appropriates \$589,100,000 as proposed by the House instead of \$604,400,000 as proposed by the Senate.

The conference agreement on items addressed by either the House or Senate is as follows:

(In thousands of dollars)

	Budget	House	Senate	Conference
VHA	12,573	8,173	8,173	8,173
Fiscal year 1984 pay raise			15,300	
All other items	580,927	580,927	580,927	580,927
Total, National Guard personnel, Air Force	593,500	589,100	604,400	589,100

TITLE III—OPERATION AND MAINTENANCE

The following items addressed by the conferees apply to more than one operation and maintenance appropriation of the Department of Defense:

APPROPRIATION BY BUDGET ACTIVITIES

The authorization conference recommended O&M authorization levels at the budget activity within each appropriation but specified that the Department of Defense should retain certain flexibilities for transfers. The Appropriations Bill as passed the House recommended specific budget activity amounts within each appropriation while the Senate version recommended appropriation at the O&M account level as historically has been the case.

The conferees agree that appropriation at the budget activity level would unnecessarily inhibit the required flexibility in the Department of Defense for executing a complex operating budget during the course of the fiscal year. As a result, the conferees agree to appropriate at the account level rather than by specific budget activity. The conferees have worked diligently to ensure that each of the individual items being addressed in the conference are within the authorized limits.

ADP equipment acquisition

Both the House and the Senate criticized the management of ADP equipment acquisition in DOD. The House recommended a re-

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HAC Conference Report

duction of \$680,000,000 in the operation and maintenance accounts and provided \$150,000,000 for establishment of a special fund to buy ADP equipment currently being leased.

The conferees agree to a reduction of \$150,000,000 to the operation and maintenance accounts to reflect savings from increased competition and reduced leasing, and to provide \$150,000,000 to the Defense Industrial Fund to buy out existing leases as recommended by the House. The Conferees recognize that the revolving fund allowance is sufficient to begin a modest buy-out program. It is expected that the fiscal 1985 request will include additional funding to accelerate the purchase of leased ADP equipment where it is cost efficient to do so. As a means to replenish the revolving fund, the Department may wish to use an amortization schedule to annually reimburse the Defense Industrial Fund for a portion of the purchase value of the ADP equipment. This formula should assure the buy-out of most ADP equipment within five years.

The Department is expected to adhere to the following ADP management procedures:

1. All acquisition of ADP components will be purchased outright, unless cognizant ADP and contracting officials can justify a method of acquisition and financing that will produce the lowest total overall cost to the Government.

2. Consistent with longstanding guidance from the Congress, all acquisition of ADP equipment in DOD will be done in a manner that will achieve lowest total overall costs to the government; normally this will be accomplished through competition, unless warranted by a national exigency to support a time-sensitive program of the highest national priority; acquisition is not to be considered competitive solely on the basis of inclusion on the GSA ADP schedule.

3. A comprehensive audit of all ADP equipment in DOD will be performed to ensure that DOD is not continuing to pay rent on equipment already owned, to determine accrued purchase credits on existing leased systems, and to form an inventory baseline so that ADP equipment excess to requirements in one activity can be transferred to another activity with an existing deficiency, provided that doing so does not perpetuate obsolescence. Leased ADP equipment that is obsolete will not be purchased if replacement is planned within two years and resources have already been identified in the Five Year Defense Plan.

4. A comprehensive and immediate training and advisory program is to be implemented to ensure that DOD contracting officers have sufficient ADP expertise to protect that Government's interest and to better understand internally developed ADP requirements in order to perform the most effective acquisitions.

5. A program is to be initiated to provide for the economic buyout of existing ADP equipment in use by DOD but not owned by DOD. By April 1, 1984, the Defense Department will submit to the Congress an action plan for implementing and resourcing this initiative.

6. Finally, no exceptions are to be made for competitive acquisition or outright purchase except with the specific case-by-case approval of the component Senior Information Resource Management (IRM) officials or their designees. These exceptions, however, are

not to be justified by lack of necessary procurement funds or time-sensitivity. The exceptions will be reported to Military Department Senior ADP officials (OSD for Defense Agencies) on a quarterly basis. The department's Senior ADP Officials will be prepared to justify exceptions to the Congress when requested.

Stock fund accounting change

Both the House and the Senate directed DOD to record obligations at the time customer orders are placed against the stock fund. However, the House directed implementation on September 1, 1984, while the Senate directed implementation prior to the end of the fiscal year. Conferees agree that the Department should implement this accounting change prior to the end of the fiscal year as directed by the Senate.

Industrial plant equipment

The conferees agree to permit the Department of Defense to budget for industrial plant equipment in the customer operation and maintenance accounts as recommended by the Senate, and agree to provide a total of \$414,500,000 instead of \$364,500,000 as recommended by the House and \$564,500,000 as recommended by the Senate.

The conferees fully support the modernization of the industrial plants of the Department of Defense. However, the many layers of bureaucracy between these industrial activities and the Congress have provided poor justification for such an important and expensive program. A significantly better job must be done by the Department of Defense in fiscal year 1985 of supporting the request for these funds. Since DOD has testified that the individual industrial activities each have a plan and are free to allocate these resources based upon the critical needs of that individual activity, in conjunction with submission of the fiscal year 1985 budget request the Department will present the plan for each activity identifying major equipment problem areas; expected productivity improvements from a strengthened equipment replacement and improvement program; funding levels for fiscal years 1983, 1984, and 1985; and the estimated funding requirement to modernize industrial plant equipment at each activity over a ten year period starting in fiscal year 1985. The conferees agree that funds provided for fiscal year 1984 are to be managed and expended by the industrial activity without further review of higher authority.

Spare and repair parts procurement management

The conferees agree that management of spare and repair parts procurement in the Department of Defense needs to be strengthened, and agree to provide \$15,000,000 for 700 additional manyears. However, the conferees agree to allocate this amount equally across the military departments rather than only to the Air Force as recommended by the Senate. The conferees also agree that this increase is to be used to strengthen supply system procurement management at the inventory control points in the supply systems of each military service. The increase being provided by the confer-



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CENTRAL SECURITY SERVICE
FORT GEORGE G. MEADE, MARYLAND 20755

Serial: N1850
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CLASSIFIED BY NSA/CSSM 1232

EXCLUDED FROM AUTOMATIC DOWNGRADING AGENCY'S DETERMINATION PROCESS

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